

## Message Text

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PAGE 01 NICOSI 00355 070821Z  
ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 TRSE-00 COME-00 OMB-01 AID-05  
SP-02 CIAE-00 INR-07 NSAE-00 /036 W  
-----070824Z 079111 /11  
R 070752Z FEB 77  
FM AMEMBASSY NICOSIA  
TO SECSTATE WASHDC 5271

UNCLAS NICOSIA 0355

FOR EB/IFD/ODF: JOHN BLANEY

E.O. 11652: N/A  
TAGS: EFIN, EAID, OREP  
SUBJECT: SENATOR GRAVEL'S PAPER ON TAXATION FOR DEVELOPMENT  
ASSISTANCE

REFS: (A) STATE 9837; (B) STATE 4496

1. SENATOR GRAVEL'S PROPOSAL TO TAX FOREIGN SOURCE INCOME OF U.S. MULTINATIONAL CORPORATIONS (MNC'S) TO RAISE FUNDS FOR DEVELOPMENT ASSISTANCE TO LDC'S WOULD HAVE LITTLE EFFECT IN CYPRUS. CYPRUS IS NOT AN LDC ITSELF AND NO MNC'S MAKE THEIR HEADQUARTERS IN CYPRUS. CYPRUS HAS A VERY SMALL AMERICAN BUSINESS COMMUNITY; MOST REPRESENTATIVES OF AMERICAN FIRMS ARE LOCAL AGENTS.

2. THE PROPOSAL DOES RAISE INTERESTING ISSUES WHICH THIS POST IS NOT FULLY COMPETENT TO CONSIDER. IN PARTICULAR WE ARE PUZZLED BY TWO MAJOR POINTS CONCERNING THE USE OF MNC'S AS A SOURCE FOR DEVELOPMENT FUNDS FOR LDC'S:  
A) WHILE MOST DIRECT INVESTMENTS ABROAD ARE MADE BY MNC'S, TWO-THIRDS ARE IN TECHNICALLY-ADVANCED COUNTRIES. FURTHERMORE, OF ALL U.S. DIRECT INVESTMENTS ABROAD, LESS THAN 20 PER CENT HAVE BEEN IN LDC'S. AS THE PAPER SEEKS TO EARMARK TAX FUNDS FOR DEVELOPMENT IN  
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LDC'S, IT IS NOT IMMEDIATELY CLEAR WHY ALL MNC'S -- REGARDLESS OF WHERE THEIR INVESTMENTS OR SALES MAY BE -- ARE VIEWED AS A LOGICAL SOURCE FROM WHICH TO GENERATE THE REQUIRED TAXES.

B) SPOTLIGHTING MNC'S AS THE LOGICAL SOURCE FROM WHICH TO GENERATE ADDITIONAL DEVELOPMENT FUNDS ALSO MAY EN-

COURAGE UNJUSTIFIED ACCUSATIONS BY LDC'S AGAINST MNC'S  
THAT THE LDC'S PROBLEMS ARE INDEED "CAUSED" OR OTHERWISE  
AGGRAVATED BY MNC'S. EMPHASIZING THIS LINK IN THE MINDS  
OF LDC'S MAY INCREASE HOSTILITY BETWEEN THE LDC'S AND  
MNC'S AND FURTHER RESTRAIN MNC'S FROM PROVIDING THE  
INVESTMENTS IN LDC'S THAT ARE SOUGHT IN THE FIRST PLACE.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
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**Reference:** 77 STATE 9837, 77 STATE 4496  
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**Subject:** SENATOR GRAVEL'S PAPER ON TAXATION FOR DEVELOPMENT ASSISTANCE  
**TAGS:** EFIN, EAID, OREP, US, CY, (GRAVEL, MIKE)  
**To:** STATE  
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**Review Markings:**  
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